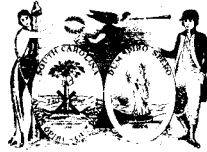


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

August 31, 2004

Ms. Carol W. Disbro, Director of Reimbursement  
Trans Healthcare, Inc.  
The Highlands  
920 Ridgebrook Road  
Sparks, Maryland 21152

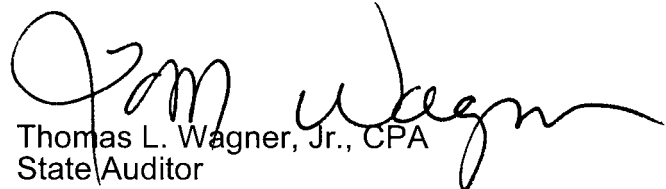
Re: AC# 3-MRH-J1 – Magnolia Manor – Rock Hill, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**MAGNOLIA MANOR – ROCK HILL, INC.**

**ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING JANUARY 1, 2003  
AC# 3-MRH-J1**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 4, 2004

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Rock Hill, Inc., for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Magnolia Manor – Rock Hill, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

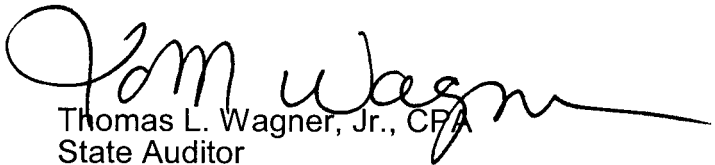
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Rock Hill, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Magnolia Manor – Rock Hill, Inc. dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
August 4, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA MANOR - ROCK HILL, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning January 1, 2003  
AC# 3-MRH-J1

01/01/03-  
09/30/03

Interim Reimbursement Rate (1)	\$116.48
Adjusted Reimbursement Rate	<u>114.48</u>
Decrease in Reimbursement Rate	\$ <u>2.00</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period January 1, 2003 Through September 30, 2003  
AC# 3-MRH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 60.97	\$67.28	
Dietary		10.60	11.21	
Laundry/Housekeeping/Maintenance		<u>8.88</u>	<u>9.67</u>	
Subtotal	<u>\$6.17</u>	80.45	88.16	\$ 80.45
Administration & Medical Records	<u>\$ -</u>	<u>13.21</u>	<u>12.77</u>	<u>12.77</u>
Subtotal		93.66	<u>\$100.93</u>	93.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.58		2.58
Special Services		.07		.07
Medical Supplies & Oxygen		4.06		4.06
Taxes and Insurance		1.62		1.62
Legal Fees		<u>.01</u>		<u>.01</u>
<b>TOTAL</b>		<u>\$102.00</u>		101.56
Inflation Factor (3.70%)				3.76
Cost of Capital				7.41
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				6.17
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.42)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$114.48</u>

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,366,199	\$ 1,839 (2)	\$ 23,613 (4) 23,757 (5) 531 (5) 192 (6)	\$2,319,945
Dietary	401,032	3,873 (2)	1,268 (5) 455 (6)	403,182
Laundry	90,525	-	-	90,525
Housekeeping	122,306	-	-	122,306
Maintenance	118,984	6,370 (2)	217 (5)	125,137
Administration & Medical Records	541,776	23,613 (4) 5,697 (5) 10,394 (7)	32,661 (3) 709 (5) 45,604 (6)	502,506
Utilities	98,287	-	-	98,287
Special Services	2,216	1,356 (8)	740 (5)	2,832
Medical Supplies & Oxygen	149,324	5,771 (2)	606 (8)	154,489
Taxes and Insurance	62,641	-	849 (6)	61,792
Legal Fees	334	-	-	334
Cost of Capital	323,452	1,282 (7) 10,848 (9)	17,841 (1) 35,853 (6)	281,888
Subtotal	4,277,076	71,043	184,896	4,163,223



**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Debit	Adjustments Credit	Adjusted Totals
Ancillary	95,315	-	-	95,315
Nonallowable	(16,399)	17,841 (1) 32,661 (3) 21,525 (5) <u>82,953 (6)</u>	17,853 (2) 11,676 (7) 750 (8) <u>10,848 (9)</u>	97,454   <u></u>
Total Operating Expenses	<u>\$4,355,992</u>	<u>\$226,023</u>	<u>\$226,023</u>	<u>\$4,355,992</u>
Total Patient Days	<u>38,050</u>	<u>-</u>	<u>-</u>	<u>38,050</u>
Total Beds	<u>106</u>			

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 66,726	
	Nonallowable	17,841	
	Fixed Assets		\$ 50,450
	Other Equity		16,276
	Cost of Capital		17,841
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nursing	1,839	
	Dietary	3,873	
	Maintenance	6,370	
	Medical Supplies & Oxygen	5,771	
	Nonallowable		17,853
	To record expense related to		
	2000 assets removed in 2001, to		
	reclassify expense, and to remove		
	expense which should be capitalized		
	HIM-15-1, Section 108		
	DH&HS Expense Checklist		
3	Nonallowable	32,661	
	Administration		32,661
	To remove rental payments on the		
	capital lease		
	HIM-15-1, Section 110B		
4	Medical Records	23,613	
	Nursing		23,613
	To reclassify salaries to the		
	proper cost center		
	DH&HS Expense Checklist		

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Medical Records	5,697	
	Nonallowable	21,525	
	Nursing		23,757
	Restorative		531
	Dietary		1,268
	Maintenance		217
	Administration		709
	Therapy		740
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	82,953	
	Nursing		192
	Dietary		455
	Administration		45,604
	Taxes, Insurance & Licenses		849
	Cost of Capital		35,853
	To adjust the IHS home office allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Administration	10,394	
	Cost of Capital	1,282	
	Nonallowable		11,676
	To adjust the central accounting office and laundry home office allocations HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Therapy	1,356	
	Medical Supplies & Oxygen		606
	Nonallowable		750
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	10,848	10,848
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$292,749</u>	<u>\$292,749</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>106</u>
Deemed Asset Value	4,073,686
Improvements Since 1981	769,992
Accumulated Depreciation at 9/30/01	( <u>1,173,545</u> )
Deemed Depreciated Value	3,670,133
Market Rate of Return	<u>.0577</u>
Total Annual Return	211,767
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	211,767
Depreciation Expense	79,764
Amortization Expense	-
Capital Related Income Offsets	(9,643)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	281,888
Total Patient Days (Actual)	<u>38,050</u>
Cost of Capital Per Diem	\$ <u><u>7.41</u></u>

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2001  
AC# 3-MRH-J1

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.53
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>10.52</u>
Reimbursable Cost of Capital Per Diem	\$ 7.41
Cost of Capital Per Diem	<u>7.41</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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